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8620.00/1-1659

FROM: Ambassador, Bonn
TO: Department of State, Washington
REF: 1957 CERP, Section C, Item 1

Despatch No. 1066

January 16, 1959

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1. Coal and Oil Developments (UNCLASSIFIED)

a) German Views Expressed ECSC Council of Ministers Meeting. While neither Minister Erhard nor State Secretary Westrick raised possibility of imposing customs tariffs on import coal at ECSC Council meeting, subject was introduced by CDU Bundestag delegate Dr. Burbach. Burbach pointed out that restrictive coal import policy could be undertaken on basis Article 74 ECSC Treaty in view present market situation. He emphasized, however, exemption should be granted for import quotas for countries within community which depend upon import coal or for which import coal would be most favorable source supply. He further maintained that present energy market not governed by free competition, rather than by supply and demand for heating oil and gasoline, which is, in turn, dominated by eight leading world oil companies. These companies, he said, were currently dumping heating oil on markets which are still liberalized, particularly FedRep market. FedRep coal-oil cartel does not, he contended, furnish sufficient protection against this dumping. Burbach also advocated closing-down of marginal mines.

SPD delegate Dr. Deist demanded nationalization of ECSC mining and strict control of prices and cartels. He criticized European energy institutions for not taking action. Deist also maintained German coal-oil cartel would prove inadequate to solve problem, since large consumers heating oil had protected themselves from cartel by concluding long-term contracts. Deist also demanded efficient high authority import organization for coal which should, without protectionism, control import quantities as well as attempt to smooth out fluctuations in world market prices.

b) Coal - Stocks and Layoffs. At end last week, FedRep stocks of coal and coke are reported to be 13.1 million tons. Layoffs have been reported at 24 Ruhr mining installations, involving 72,767 miners, estimated loss in production of 97,900 tons, and loss in wages of 1.5 million Deutsche Marks.

The Trade Unions started their move toward a five-day work week involving 7 1/2-hour shifts and full pay, by announcing that another protest demonstration had been scheduled for January 25. Oberbergerat Keyser, acting member of managing board of Ruhr Coal Mining Employers Association, stated that there are no fundamental objections on part of employers against five-day work week, but five-day week without reduction in pay would aggravate rather than relieve serious situation in coal industry.

c) Coal-Oil Cartel Procedure in Suspense. Agreement has not yet been reached between representatives of Ruhr mining and oil industries participating in coal-oil cartel with regard to price lists which represent essence of cartel agreement. Discussions are expected to be resumed on January 15 on basis of new proposals by oil companies.

d) Mineral Oil Production in FedRep. Another peak was reached in oil production in December, when for first time it exceeded 400,000 tons, or daily average of 12,934 tons, i.e. 274 tons per day over preceding month. Preliminary figures indicate total output in 1958 was 4.43 million tons, which represents 11.9 percent increase over 1957. While increase in 1957 over 1956 had been 12.9 percent actual output in 1958 has exceeded expectations by 183,000 tons, thus already reaching

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output estimated for 1959.

On international comparison, Fedrep continues first in Western Europe's mineral oil production, sharing .5 percent only of world production of 905.2 million tons or 23 million tons increase over preceding year.

2. Bundesbank Reduces Rediscount Rate (UNCLASSIFIED)

On January 9, Central Bank Council of Deutsche Bundesbank reduced rediscount rate by $1/4$ percent, effective January 10, from 3 to $2-3/4$ percent, lowest rate since establishment of Deutsche Reichsbank in 1875. Simultaneously, rate for advances was reduced from 4 to $3-3/4$ percent, for 30 to 59 day bills from $2-1/4$ to $2-1/8$, for 60 to 90 day bills from $2-3/8$ to $2-1/4$, for 6 month Treasury Bonds from $2-5/8$ to $2-1/4$ percent, and for 2 year bonds from $3-1/4$ to $3-1/8$ percent. Furthermore, Bundesbank resumed sale of paper with maturity longer than 6 months which had been discontinued for two months. Extent to which creditors' interest rates will follow rediscount rate downward will be decided at meeting of banking supervisory authorities scheduled for January 19.

Comment: Effects of reduction in rediscount rate are likely to appear more on flow of funds abroad than on level of internal business activity, since German banks do not presently need to avail themselves of Central Bank credit. In addition, bank may also intend to induce further drop in bond yields, presently 5 to $5-1/2$ percent, and thereby to promote German long-term capital exports, e.g., flotation of foreign securities on German capital market.

3. DM Convertibility for Residents (UNCLASSIFIED)

Remaining restrictions on acquisition and holding by German residents of foreign currency notes and instruments were lifted effective January 14. Now all persons may, upon demand, acquire foreign exchange for DM, although minor restrictions remain on use.

Comment: Measure by itself should have little effect, because residents had been permitted to acquire foreign exchange for almost any purpose. Few restrictions, also of relatively small scope, on certain types of transactions remain in effect, most of which may be eliminated soon. Distinction between foreign- and domestically-held DM continues to be made and to have some significance.

4. FedRep Stocks Reach New High (UNCLASSIFIED)

During first week of January, stock prices reached new peak as expressed in index of stock prices prepared by Federal Statistical Office. Index (December 31, 1953 = 100) increased from 300.6 on December 31, 1958 to 306.0 on January 7, 1959. Basic industries soared from 249.1 to 253.0, metal processing industries from 328.8 to 347.1, other processing industries from 315.8 to 320.7, and other sectors from 328.2 to 334.8.

Comment: This upward movement of stock prices may have partly been influenced by establishment of DM convertibility. Also anticipation of Bundesbank's rediscount rate reduction may have contributed to this boom.

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5. West German Industry to Assist Berlin (UNCLASSIFIED)

At meeting in Berlin last weekend, Economics Ministers of Laender and Federal Economics Minister Erhard decided that steps should be taken to encourage West German industry to help Berlin by placing still more contracts with Berlin enterprises. Subsequent to this recommendation Northrhine Westphalia became first Land to establish position of commissioner of Land controlled enterprises. It will be his task to determine whether every opportunity to place contracts with Berlin firms have been utilized.

Fritz Berg, president of Federal Association of German Industry (BDI) said at Berlin meeting of Bundestag All-German and Berlin Affairs Committee that BDI's efforts initiated in December have shown general intention by many branches of West German industry to increase placement of 50 percent more orders during 1959 as compared with 1958.

Comment: In past year, West Berlin's industrial exports amounted to about \$1.6 billion. If its capacities are to be fully used during 1959, these exports must be increased by about 10 percent. It is believed that it will not be difficult for industrial enterprises in FedRep to place these additional orders in Berlin. A widespread movement to support Berlin economy has developed in FedRep and in Embassy view likely to be quite effective.

6. Poll Reveals Growing Interest in Bundeswehr Career (UNCLASSIFIED)

Poll by Gesellschaft fuer Marktforschung, Hamburg, revealed that number of young Germans wishing to become Bundeswehr officers has increased considerably. Students in last grade of secondary school who were questioned what profession they would choose, 7.5 percent of those who had already decided on career (10 percent of those questioned) wanted to become Bundeswehr officers. Similar polls conducted in preceding years indicated only negligible number interested in officer careers in Bundeswehr.

Comment: Intensive advertising campaign, favorable pay rates and growing popularity of Bundeswehr are factors contributing to this growing interest in military career among young Germans. Bundeswehr members themselves in their contacts with populace have done much to quell prejudice against military career which had existed in early stages of Bundeswehr buildup.

7. New Ships for German Navy (UNCLASSIFIED)

Defense Ministry placed orders for 3 escort ships with Schleswig-Holstein shipyards, Lindenau-Werft, Kiel (2) and Schlitzing-Werft, Luebeck (1). In addition contract for construction of 4 escort ships was recently placed with Ottensener Eisenwerke, Hamburg.

Total of 31 ships have been built for German Navy since beginning of buildup including 13 PT boats, 3 fast mine sweepers of NATO type, 2 harbor protection boats and 1 sailing vessel. Fourteen of these new constructions have been put into service to date.

Comment: It is to be expected that Defense Ministry will speed up placing of contracts for ship construction particularly to assist small and medium sized shipbuilders who are experiencing slight business slump.

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